H. Access Charges

Two concerns were raised regarding this portion of our January 28, 1997 Opinion and Order; first with respect to our determination to offset fund contributions with the CCLC revenues currently paid by IXCs, and second with respect to our determination to cap access charges at present levels. GTEN argues that the use of CCLC revenues to determine Universal Service support is inconsistent with the 1996 Act which requires predictable and sufficient funding for Universal Service. GTEN Petition at p. 6. GTEN states that the Commission's reduction of the level of Universal Service support by the amount of CCLC revenues will result in insufficient Universal Service funding and is therefore arbitrary and unreasonable. GTEN Petition at p. 6.

GTEN further states that a more fundamental problem with this calculation is the dollar for dollar offset of non-LEC contributions with LEC revenue reductions. GTEN Supplemental Petition at p. 6. GTEN argues that the CCLC is a source of implicit subsidy, and receipts would be offset by price reductions to services with high contributions, so there is no "double-recovery" issue. GTEN Supplemental Petition at pps. 6-7. GTEN states that LEC revenue reductions should instead be tied to the amount of Universal Service funding each LEC receives, and LECs should be given the flexibility to determine which high margin services receive price reductions. GTEN Supplemental Petition at p. 7. GTEN further states that CCLC reductions should be considered in the generic intrastate access charge reform investigation. This would give LECs direction as to the amount of access rate reductions that are consistent with the Commission's access charge reforms. GTEN Supplemental Petition at p. 7.

Bell argues that any reduction of its revenues in this proceeding to fund an administrative initiative would violate the Public Utility Code and Bell's Alternative Regulation Plan, as well as principles of competitive neutrality. Bell Supplemental Petition at p. 4. Bell goes on to argue that the Commission's rationale for reducing the local exchange carriers' CCLC does not apply to Bell. The offset is intended to prevent double recovery of NTS costs -- however Bell states that it is a net payer and since it will not be receiving any portion of the non-LEC contribution to universal service, there is no possibility of "double recovery" and no need to reduce Bell's CCLC at all. Bell Supplemental Petition at p. 5. Bell also argues that there is no evidentiary or logical basis for the calculation of Bell's CCLC reduction, which applies an identical offset rate to each carrier's CCLC revenues. Bell argues that the use of the same offset for each carrier assumes that

the CCLC rates of each carrier contribute the same amount to the carrier's NTS costs which Bell states is not the case. Bell Supplemental Petition at p. 5.

GTEN asks the Commission to delay any structural changes in the CCLC until both state and federal access charge reforms have been completed. To do otherwise will create costly billing changes and other efforts that will need to be reversed as part of access charge reform. GTEN Petition at p. 7. PTA submits that it is wrong to cap access charges since it unfairly denies LECs the revenue growth from their industry, which they "use constructively to offset cost increases and maintain rates at the lowest possible level." PTA Petition at p. 6.

ALLTEL also opposes any alteration of the CCLC and requests the Commission reconsider imposing caps at this time and instead consider the issue in the intrastate access charge reform proceeding. ALLTEL Petition at p. 16. Sprint agrees that the Commission's decision to order capping of the CCL is an issue which should be addressed on the record. Sprint Petition at p. 7. Sprint further argues that capping is not supported by substantial evidence. Capping, according to Sprint, may be in conflict with the FCC's process for interstate access reform. Sprint Petition at p. 7.

We find GTE's arguments unpersuasive with regard to the CCLC offset -- the record before us was uncontroverted in demonstrating that existing intrastate access charges contain some of the highest implicit subsidies to NTS costs, up to 70% for some small LECs. Consequently, the CCLC offset is appropriate and necessary to recognize the current contribution IXCs make to NTS costs in their current access charges. Without an offset, IXCs would be making the same contribution to NTS costs twice -- once by way of an implicit subsidy and second by way of an explicit contribution to the state universal service funding mechanism. We agree with GTEN, however, that once intrastate access charge reform is completed, there will presumably be no need for an offset as appears on Appendix A since any implicit subsidies contained in current access charges will be made explicit through the state universal service funding mechanism. Nonetheless, it should be recognized, that to the extent there is a transition period, some level of offset may continue to be appropriate. Implementation of the funding mechanism is to be coordinated with the results of the intrastate access charge reform proceeding -- consequently the actual level of any applicable offsets should be a consequence of the intrastate access charge reform proceeding. We ask parties to address the interrelationship of this docket and the Commission's intrastate access charge reform docket in the Technical Workshops. Parties should also address the appropriate level of any offsets.

We also believe that our January 28, 1997 Opinion and Order gives LECs sufficient flexibility to determine which high margin services receive price reductions. We also intend to give further guidance on this issue once the workshops conclude and the intrastate access charge reform proceeding is finished. Finally, we reiterate that Appendix A to our January 28, 1997 Opinion and Order reflected our best estimate at that time of the impact of our determinations upon overall fund size, individual carrier distributions and contributions. As has been repeatedly stated, Appendix A was not meant to be a final determination with regard to any of these issues.

With regard to access charge capping, upon reconsideration of the issue, we have decided to delay any structural changes to current access charges and ask that the structural changes discussed in our January 28, 1997 Opinion and Order be examined in the context of the current intrastate access charge reform proceeding. We find that several parties have raised several new arguments not previously considered by us in our January 28, 1997 Opinion and Order including the potential for costly billing charges that would need to be reversed in several months at the conclusion of our intrastate access charge reform proceeding.

We reject Bell's argument that the Commission's rationale for reducing the LEC's CCLC is inapplicable in Bell's case because it is a net payer and since it will not be receiving any portion of the non-LEC contribution to universal service. Notwithstanding Bell's position as a net payer at this time, the CCLC offsets must still be taken into account when determining overall funding levels; and Bell is a contributor to the fund. We reiterate, however, that the offsets and other data appearing on Appendix A were for illustrative purposes only. As already stated, the results of the Commission's intrastate access charge reform proceeding will have to be taken into account when the Commission and/or fund administrator determine final funding levels.

Finally, we cannot accept Bell's arguments that any reduction of its revenues in this proceeding to fund an administrative initiative would violate the Public Utility Code or Bell's Alternative Regulation Plan. Indeed, subsequent changes which may impact upon the Company's revenue streams were specifically contemplated by the inclusion of the provisions permitting exogenous treatment of certain expenses subsequently incurred. We note that the FCC determined in its May 8, 1997 Report and Order that ILECs under price cap regulation would be entitled to exogenous treatment to the degree of their participation or contributions to the federal funding mechanism. Bell has also raised the FCC's treatment of these expenses in its supplemental comments. Bell Supplemental Petition at p. 20.

While we are inclined to agree that Bell or other carriers which are under price cap or alternative regulation plans at the state level should be entitled to exogenous treatment of the expenses associated with their participation in the state funding mechanism, since the criteria for exogenous treatment at the state level differ from the criteria utilized by the FCC, we ask for comment on this issue by August 20, 1997, with reply comments due on August 29, 1997.

I. Fund Phase-In and Other Timing Concerns

Three timing concerns were addressed by parties in their Petitions for Reconsideration, including: (1) the four year phase-in of the state universal service funding mechanism, (2) the timing of Lifeline implementation and CCLC capping and rate restructuring with implementation of the state funding mechanism, and, (3) coordination of the state and federal funding mechanisms.

MCI argues that the state Universal Service funding mechanism should not be phased in over a four year period. MCI Petition at p. 3. MCI argues that a phased-in implementation stifles growth of the competitive local market and is counter to the intention of the Federal Act. Petition at p. 3. MCI further argues that the Federal-State Joint Board on Universal Service found "that a short transition period will expedite achieving the requirements of the 1996 Act, with minimal adverse impact on carriers." Petition at p. 3.

Use of a phase-in period of four years serves to unnecessarily delay competition in Pennsylvania and deny the benefits it brings to ratepayers. MCI Petition at p. 4. MCI also requests that the Commission clarify that it did not intend to prejudge its actions in the Access Reform initiative and that the four year phase-in is not intended to leave in place the present anti-competitive implicit subsidies in the ILEC's intrastate switched access rates during the four year period. Petition at p. 4. To fail to remove these implicit subsidies in favor or of explicit subsidies to the LEC in need of those subsidies is anticompetitive. Petition at p. 4.

Sprint agrees with MCI and seeks reconsideration of the Commission's proposed phase-in because it would move the USF further out of synchronization with access charge reform and rate rebalancing by companies. Sprint Petition at p. 4. Because the purpose of the USF is to promote competition in high-cost areas of the state, while maintaining basic service rates at an affordable level, all of these piece parts must come together and be implemented at the same time. Sprint Petition at p. 4. In addition, argues Sprint, the FCC's rulings must be considered or there will be an overlap or gap of funds between the state and federal funding mechanisms. Sprint Petition at p. 4.

GTEN likewise urges the Commission to reconsider its decision to adopt a four year phase-in for the Universal Service Fund since it will create a mismatch between the costs of supporting universal service and the revenues received from the Universal Service fund resulting in an unlawful takings. GTEN Petition at p. 13. The impacts of competition, argues GTEN, will have the effect of removing implicit subsidies far in advance of the four year phase-in. GTEN Petition at p. 13.

With regard to other timing concerns, GTEN asks the Commission to reconsider the way in which it has coordinated the implementation of Lifeline rates. GTEN states that both events are scheduled to occur before the commencement of the Universal Service fund. GTEN Petition at p. 11. GTEN urges coordination of the filing of Lifeline rates with implementation of full Universal Service funding. GTEN Petition at p. 11. PTA agrees that Lifeline rate implementation should coincide with the associated rate rebalancing proceedings, if any, and the implementation of the Fund. PTA Petition at p. 7.

With regard to coodination with the federal funding mechanism, OCA, in its Supplemental Petition, points out that the FCC has proposed the following schedule:

June 30, 1997	FCC will issue a Further Notice of Proposed Rulemaking in order to determine high cost support for non-rural carriers.
December 31, 1997	FCC will select a cost model platform for non-rural carriers and seek comments on input values.
August 31, 1998	FCC will adopt a cost methodology for non-rural carriers.
October 31, 1997	FCC releases Further Notice of Proposed Rulemaking on cost methodology for rural carriers.

Id. at p. 9. OCA states that the PUC may wish to delay its implementation of its own high cost assistance funding in order to correspond with the schedule that the FCC has set. OCA Supplemental Petition at p. 10.

In contrast, PTA states that the FCC will begin to change interstate methods and levels of support starting on January 1, 1998. PTA urges that it is absolutely essential that in Pennsylvania a Universal Service fund be implemented and

become operational on January 1, 1998. PTA Supplemental Petition at p. 10. Unless Pennsylvania reacts to the dramatic and sweeping changes which the FCC has stated it will implement for interstate access, Pennsylvania will face a confusing mismatch of pricing theories and significant rate arbitrage. PTA Supplemental Petition at p. 10.

Similarly, GTEN argues that the Commission should not delay making the Pennsylvania universal service fund operational because of the many issues arising from the FCC universal service order. GTEN states that the FCC will not make a final determination on a universal service costing methodology until August of 1998, and federal support for non-rural carriers will not be distributed until January 1, 1999. Competition, states GTEN, is not likely to wait until 1999, and it must be accompanied by an explicit and sufficient universal service fund. GTEN Supplemental Petition at p. 8. GTEN further states that the FCC's inability to reach consensus on a final proxy costing model is not cause for changing the Commission's direction. GTEN Supplemental Petition at p. 8.

First, we deny the requests for reconsideration of our determination to phase-in the state funding mechanism over a four year period. We note that the FCC's Access Charge Reform and Universal Service determinations are similarly to be implemented over an extended period of time, rather than on a flash cut basis. Phase-in should result in more structured coordination with federal programs in that most changes to the federal funding mechanism will not be implemented until 1998 or 1999.

At the same time we are not persuaded by OCA's arguments to delay implementation of the state funding mechanism to correspond with the schedule the FCC has set for implementation of the federal funding mechanism. OCA offered no compelling rationale to postpone implementation of the state program. Indeed, we find GTEN's arguments to be the most persuasive -- a delay in universal service funding until 1999 would be particularly damaging in Pennsylvania because with the four-year transition plan, the universal service fund would not be fully operational until 2002. GTEN Supplemental Petition at p. 8.

Finally, we deny the requests for reconsideration of the other timing issues raised by parties with regard to Lifeline rate implementation. We do not accept arguments that we must wait until the state funding mechanism becomes fully operational before these important programs may be implemented. The Lifeline program is narrowly targeted to low income customers and therefore the costs of the program should not be significant to any carrier. To the extent that the costs

are significant, we once again make the option available to companies to file under Section 1308(b).

We do note, however, as discussed in much more detail below, that the FCC has significantly amended the federal Lifeline program effective January 1, 1998. To ensure consistency with the new federal requirements set out in the FCC's May 8, 1997 Report and Order, we grant PTA's request for an extension of time, in part, and require all LECs which have not yet filed their Lifeline plans with the Commission to do so on or before September 30, 1997; with an effective date of January 1, 1998.

J. Rural Telephone Companies

PTA argues that for smaller, rural companies, embedded cost information will be employed for at least another four or so years. TSLRIC costing models will be used, at the earliest, beginning in the year 2001, at which time a national benchmark will be established. PTA Petition at p. 8.

ALLTEL submits that it should be designated a small local exchange carrier for purposes of the Universal Service Investigation. It states that the Commission should revise its designation between large and small LECs to more properly reflect the specifics of Pennsylvania's universal service investigation and to coincide with the FCC's distinction between non-rural and rural LECs. ALLTEL Petition at p. 2.

ALLTEL requests that the Commission limit the availability of proxy waivers to those companies that can successfully convince the Commission of their detriment without a waiver, regardless of their number of access lines. Petition at pp. 12-13. Sprint also submits that the Commission should clarify that, for purposes of the USF, companies should be allowed to invoke the rural status conferred on them by definition in the Federal Act. Sprint Petition at p. 8.

MCI asks the Commission to clarify the small LEC waiver process provisions by stating that a LEC, which is an affiliate or part of a larger corporation operating inside or outside the boundaries of Pennsylvania, will be reviewed in combination with its affiliates when determining eligibility for a proxy waiver. MCI Petition at p. 9.

GTEN argues that the Commission has acted arbitrarily and unreasonably by using a much higher ACF for small LECs. For large LECs, universal service costs produced by the BCM-2 were reduced by approximately 46%, as opposed to

reductions of only 21% for smaller LECs, states GTEN. GTEN Supplemental Petition at p. 4. GTEN argues that in regards to higher risk, the small companies are more protected from the competitive market than are large LECs. GTEN Supplemental Petition at pps. 4-5. GTEN states that using a different method of calculating funding depending on the identity of the carrier compromises the intent of the fund and complicates fund administration. GTEN Supplemental Petition at p. 5.

Bell agrees and states that the additional adjustments made by Dr. Stevenson to the BCM-2 cost results in the case of small LECs to reflect the higher average capital cost factors for those companies was inappropriate. Bell states that at least some of the higher costs associated with the smaller LECs are caused by the generally longer loops and the geographical characteristics of those companies' serving areas which the BCM-2 appears to account for to some extent. Thus, according to Bell, these costs are accounted for and the use of the additional adjustment factor for small LECs improperly double counts the impact of the longer loops and geographical characteristics. Bell Petition at p. 11.

We agree with both Sprint and ALLTEL that all companies meeting the definition of a "rural telephone company" under the Federal Act should be allowed to invoke that status for universal service purposes and that there should be some consistency in this regard between the state and federal funding mechanisms. Consequently, all rural telephone companies will be able to avail themselves of the waiver process established in our January 28, 1997 Opinion and Order. We amend our January 28, 1997 Opinion and Order accordingly.

Further, as we have already discussed, to achieve maximum consistency with the federal funding mechanism, we will also incorporate the "rural" and "non-rural"distinction for purposes of any input differentiation that is necessary to more appropriately reflect the unique circumstances of rural carriers. We direct the parties to address in more detail in the Technical Workshops the degree of differentiation that is appropriate.

K. Task Force

Bell questions the usefulness and purpose of a Task Force. Bell argues that there is no statutory or procedural basis for such a Task Force and the Commission could not base any decision on the results of any Task Force recommendation. Bell Petition at p. 6. Bell goes on to argue that many of the issues referred to the Task Force will be addressed by the FCC in its Universal Service docket. Bell Petition at p. 6. Bell requests that reference to the Task Force be removed, or in

the alternative, that the Task Force be deferred until after the FCC has acted. Bell Petition at p. 7. If a Task Force is established, it must also include urban and suburban ratepayers whom Bell claims are not expressly represented. Bell Petition at p. 7.

Sprint argues that the subject of refinements to models, that constitutes additional evidence in this case, as well as the presentation of Sprint's BCPM model, which was not available at the time of the hearings, require rehearing on the record. Sprint also argues that the Task Force is an inappropriate forum in which to probe issues outside the record, which affect all parties to this proceeding. The Task Force also is legally infirm because the results or recommendations that may come out of it are not binding on the parties, unless the Commission then implements a rulemaking under the Commonwealth Document law, 45 P.S. Section 501, et seq. Sprint Petition at p. 9.

We decline to accept either Bell's or Sprint's arguments with regard to the Universal Telephone Service Task Force. Contrary to Bell's arguments, we believe that the Task Force will perform several very important functions in the future. First, it is an intergovernmental entity comprised of representatives from Pennsylvania agencies, industry, and consumer groups which will all be impacted by the federal and state universal service programs. We believe that is critical that the varied viewpoints of all affected entities be taken into account to the maximum extent possible, which the Task Force will allow us to do. Second, the Task Force provides an important vehicle to quickly mobilize resources and to bring to bear the considerable expertise reflected in the Task Force's membership to universal service issues which may arise in the future. Third, the Task Force will function as an important consensus building vehicle which will afford affected parties more direct input into issues which are of extreme importance to them. Finally, we believe that the current membership is balanced and contains representatives from not only urban and rural areas, but all other affected entities.

We also reject both Bell's and Sprint's arguments that the Commission cannot act based upon the Task Force's recommendations. The Task Force has provided recommendations to the Commission which the Commission has used as the basis for comments filed before the FCC. For instance, this Commission filed with the FCC a Petition for Waiver of the definition of the term "rural area" for purposes of the schools and libraries and health care provisions of the Federal Act since under the FCC's definition nine counties in Pennsylvania would be ineligible for discounts to which they would otherwise be entitled under the Federal Act given their distinctly rural character. In addition, it was only through the quick action of the Task Force that this Commission was able to immediately take the

action necessary to adopt the federal discount matrix which put Pennsylvania schools and libraries at the forefront of the new federal discount program.

Nonetheless, we do agree with Sprint that some issues are more appropriately resolved within the context of reopening the record in this proceeding and we believe that this Order, through the initiation of technical workshops, appropriately balances these concerns.

L. Lifeline Plans

Sprint asks the Commission to reconsider the requirement for Lifeline plans in light of the need to have synchronization of all aspects of the USF, including rate rebalancing and the appropriate economic price of service, before any determination can be made as to the need for, or rate level of, a Lifeline service. Sprint also argues that the Commission has not clearly stated in its Order that such reduced rates for Lifeline plans are subject to offset from the USF. Sprint at p. 7. Sprint states that until the USF has funds available to make such offerings revenue neutral for companies, it would be inappropriate to require the filing of plans when companies cannot determine what the reduced Lifeline rates should be, or how the reduction in rates will be recovered. Sprint Petition at p. 7.

Sprint also notes that its local phone company already offers two other economic basic service plans: 1) local measured service as low as $3.82 plus 6 cents for the first four minutes and 2) message rate service as low as $4.77 plus 7 cents per message. Other local telephone companies offer similar bargain plans in their tariffs. Sprint at p. 7.

MCI states that it does not object to the Lifeline Plan requirement but that some entities may not be in a position to meet the sixty day filing requirement. MCI also states that it will not serve the public interest, nor judicial economy for this Commission to impose a deadline which will result in the filing of thoughtless and incomplete documents on a program so important to penetration rates and universal service. MCI also expresses its concerns that the parties did not have an opportunity to examine time frames in the Universal Service proceeding in connection with the filing of Lifeline Plans and that given the lack of information the Commission may have on the ability of incumbent and competitive local exchange carriers to meet this deadline, MCI requests that this Commission reconsider the sixty day filing requirement for submission of Lifeline plans.

ALLTEL does not object to the Lifeline filing requirements and ALLTEL, alongwith several other carriers have filed proposed Lifeline plans in accordance

with the Commission's January 28, 1997 Opinion and Order. ALLTEL indicated that it did not have a problem with filing a Pennsylvania Lifeline Plan because it has filed similar plans in other states throughout the country.

On March 28, 1997, fourteen incumbent LECs filed a Petition For Extension of Time to file Universal Service Plans until sixty (60) days after a definitive Commission Order on Reconsideration of the January 28, 1997 Universal Service Order. These fourteen LECs include Armstrong Telephone Company-North, Armstrong Telephone Company-Pa., Bentleyville Telephone Company, Hickory Telephone Company, Ironton Telephone Company, Lackawaxen Telephone Company, North-Eastern Pennsylvania Telephone Company, North Pittsburgh Telephone Company, Palmerton Telephone Company, Pennsylvania Telephone Company, Pymatuning Independent Telephone Company, South Canaan Telephone Company, Venus Telephone Company and Yukon-Waltz Telephone Company. The PTA further states that it is uncertain from a review of the Commission Order or from discussion with respect thereto exactly what the Commission expects to be included in any such proposed Lifeline Plan. The PTA also states that it is impractical for many of the small companies to compile individual plans and accordingly the PTA would request that they be able to file a Joint or Standard Plan developed consistently with Commission directives.

By letter dated March 28, 1997, at Docket No. I-00940035, the PTA indicated that it does not expect the remaining incumbent LECs to file Lifeline rates with the Commission because doing so would essentially prejudice the outcome of its Petition For Clarification and Reconsideration of Matter which was filed on February 10, 1997. The PTA noted in its letter, however that its member companies will fully comply with any subsequent disposition of the Commission.

The federal Lifeline program operates by reducing end-user charges that low-income customers pay for local service. Support consists of a waiver of the federal SLC. Currently, to participate, states are required to generate a matching reduction in intrastate end-user charges. Pennsylvania participates in Plan 2 which allows a subscriber's bill to be reduced by at least twice the SLC.

The FCC, in its May 8, 1997 Report and Order, extends the Lifeline program so that qualifying low-income consumers can receive Lifeline service from all eligible telecommunications carriers. The FCC established a baseline amount of federal support of $5.25 to qualifying low-income customers, with a matching component above the baseline amount. This includes the current $3.50 federal SLC plus an additional $1.75 in federal support. A state need only approve the reduction in the portion of the intrastate rate paid by the end user; no state

matching is required. FCC Universal Service Order at para. 351. If a state provides $3.50 in intrastate support as most participating states now do, low-income customers will receive $10.50 in support. The FCC made the Lifeline program available in all states regardless of state participation. The FCC's modified Lifeline plan is to take effect on January 1, 1998.

We note to begin that our decision requiring LECs to file Lifeline plans comports with the spirit of the FCC's May 8, 1997 Report and Order which requires all eligible telecommunications providers to offer Lifeline service to customers in the future. Consequently, in the future, both ILECs and CLECs qualifying as eligible telecommunications carriers for federal funding purposes, will be required to make Lifeline services available to low-income consumers.

Any carrier seeking to receive Lifeline support will be required to show that it offers Lifeline service in compliance with the FCC rules. The FCC modified the Lifeline program to provide that Lifeline service must include the following services: single-party service; voice grade access to the public switched telephone network; DTMF or its functional digital equivalent; access to emergency services; access to operator services; access to interexchange service; access to directory assistance; and toll-limitation services.

As discussed previously, we grant the extension of PTA, in part, and require all LECs which have not yet filed their Lifeline plans with the Commission to do so on or before September 30, 1997; with an effective date of January 1, 1998. We believe some coordination with the new Lifeline revisions to be implemented by the FCC on January 1, 1998 is important, and thus will allow carriers to provide for an effective date of January 1, 1998. While we recognize that the new program will be applicable to "eligible telecommunications carriers", we note that the FCC in its May 8, 1997 Report and Order stated that the Common Carrier Bureau has certified some CLECs to offer Lifeline since passage of the 1996 Federal Act. In return the carriers are required to stipulate to requirements that mirror those imposed on ILECs, including that the CLEC charge a federal SLC. Consequently, we will not at this time modify the applicability of our requirement to all LECs, but will reconsider to the extent that any CLEC that is not an eligible telecommunications carrier is denied certification under the federal program.

We note the concerns of PTA that it may be impractical for many of the small companies to compile individual plans and therefore, PTA requested the ability to file a Joint or Standard Plan on behalf of the smaller carriers in Pennsylvania. While we direct companies to use the Bell Atlantic Lifeline Plan as a "minimum standard", subject to any amendments that are now required as a

result of the FCC's May 8, 1997 Report and Order, we also make available to PTA the option to meet with Commission Staff prior to the September 30, 1997 filing deadline to work out a format for a standard plan that could be used by the smaller PTA member companies.

M. Rate Rebalancing

GTEN argues that the Commission should change its decision not to permit rate rebalancing in this proceeding. GTEN Petition at p. 9. PTA requests that the Commission reconsider authorizing the LECs to commence the rebalancing of access charges, toll charges and local rates coincident with the beginning of the Universal Service fund. PTA Petition at p. 4. PTA further states that the need to "rebalance" toll, access and local rates will be critical for many of the individual companies. The LECs must be given a fair opportunity to rebalance toll, access and local rates. PTA Petition at p. 5. The PTA submits that not only the record here, but also that of prior generic investigations support rate rebalancing.

ALLTEL argues that the Federal Act recognizes that rural companies, like ALLTEL, are unique and must be provided sufficient time to rebalance their rates to reduce or eliminate implicit subsidies and must have an appropriate explicit subsidy mechanism as a means to allow them to move their rates closer to cost based pricing before facing local exchange competition and the obligations specified in Section 251(b) and (c) of the Federal Act. Introducing local competition in the serving areas of rural telephone companies without rate rebalancing is not in the public interest and without an explicit support mechanism would be contrary to the Federal Act. ALLTEL Petition at p. 5.

LECS must be allowed to rebalance rates and establish prices for basic service at cost-based levels, thus eliminating the implicit subsidy in those prices, according to Sprint. Sprint Petition at p. 7. Sprint argues that the rate rebalancing proposed by it would decrease existing prices that have been collecting the traditional subsidies, by dollar amounts equal to companies' new subsidy receipts from the USF. Sprint Petition at p. 7.

It is apparent from the Petitions for Reconsideration on this point, that several parties appear to have misconstrued the discussion in our January 28, 1997 Opinion and Order to completely preclude rate rebalancing in the future. To the contrary, this Commission's January 28, 1997 Opinion and Order did nothing to reverse prior Commission rulings regarding a carrier's ability to propose rate rebalancing plans and specifically recognized that some rate rebalancing would be necessary and appropriate in the future. In denying the specific rate rebalancing

plans submitted by several carriers in this proceeding, we did not mean to imply that we would not entertain any rate rebalancing plans in the future. We denied the proposals before us because they did not have adequate support or backup. Additionally, it was not at all clear to us that the large increases to local service rates which were being proposed in some instances were necessary or would not harm subscribership rates.

We believe, however, that it would be a futile exercise on our part to entertain any rate rebalancing proposals before the outcome of our intrastate access charge reform proceeding. Our January 28, 1997 Opinion and Order specifically permitted rate rebalancing proposals but required that they be coordinated with the results of the Commission's intrastate access charge reform proceeding now underway. We see no reason to depart from this result and no party has presented any evidence to suggest that this would be appropriate given the significant subsidies contained in current access charges.

N. Termination Rates

GTEN urges the Commission to reconsider its decision to set interim rates for end office termination and tandem termination based on the result of the AT&T arbitration involving GTEN under the Federal Act. GTEN Petition at p. 13. GTEN claims that these rates are not supported by any valid evidence and do not reflect GTEN's actual costs of terminating traffic. They are arbitrary and unreasonable, and utilizing them will result in an unlawful takings. GTEN Petition at p. 13. Local interconnection should be priced based on switched access rates modified to eliminate the CCLC and to limit the application of the switched access rates to end office switching, transport, and the information surcharge rate elements. GTEN Petition at p. 13.

The PTA seeks clarification that the interim rates identified and the permanent rates to be established in the two identified proceedings are applicable only to Bell Atlantic and GTEN North. PTA Petition at p. 4. PTA seeks assurances that the interim rates identified apply solely to the carriers for whom the rates are quoted, namely Bell and GTEN North, and that the MFSII and GTEN II proceedings will develop permanent rates for those two companies only. PTA Petition at p. 4. Sprint also requests clarification that any conclusion as a result of the MFS III and GTEN II proceedings binds only the parties in those cases. Sprint Petition at p. 5.

We clarify that the interim rates identified are not applicable to carriers other than Bell and GTEN. We note, however, that we have recently established

permanent rates for Bell which would supersede the interim rates at issue here. Additionally, given the recent Decision of the Eighth Circuit Court of Appeals which struck down, *inter alia*, the FCC interconnection pricing requirements, we will temporarily suspend the requirement that GTEN make the interim rates for end office termination and tandem termination adopted in its arbitration proceeding with AT&T available to others, until we have had an opportunity to more thoroughly review the Eighth Circuit Decision.

O. Miscellaneous

1. Universal Service Assessment Base

One of the issues arising as a result of the FCC's May 8, 1997 Report and Order is the appropriate assessment base for universal service contributions. PTA notes that the FCC has endorsed the use of end-user revenues as the assessment base for universal service contributions. PTA Petition at pps. 8-9. PTA argues that the FCC's finding end-user telecommunications revenues is more consistent with the principal of competitive neutrality and the most satisfactory method of meeting the statutory requirement that support be explicit . PTA Supplemental Petition at p. 9. Additionally, PTA argues that carriers will know exactly how much they will be required to contribute to universal service. PTA Supplemental Petition at p. 9.

Bell agrees that USF contributions should be based on intrastate retail revenues. Bell Supplemental Petition at p. 18. Bell notes that the FCC also found that the end-user telecommunications revenues method of assessing contributions was competitively neutral because it eliminated double counting, was easy to implement, and eliminated economic distortions associated with the net telecommunications revenues method favored by the Joint Board and interexchange carriers. Bell Supplemental Petition at p. 19. Bell notes that the term end-user telecommunications revenues is broader than the term retail revenues since the former encompasses revenues derived from the subscriber line charge and from other carriers when they use telecommunications services for their own internal purposes. Bell Supplemental Petition at p. 19.

GTEN agrees that contributions to the universal service fund should be based upon carrier end-user revenues. GTEN Supplemental Petition at p. 6. GTEN states that this would simplify the process and make contributions consistent with a competitively neutral method of recovery -- an end user surcharge. GTEN Supplemental Petition at p. 6.

We note that the issue of the proper assessment base for universal service contributions is more properly directed to our Final-Form Rulemaking Docket at L-00950105. For this reason, it is our intent to include the comments submitted in this proceeding on the universal service assessment base in any subsequent proceeding regarding our Universal Service rules at Docket L-00950105. With regard to the issue of a carrier's ability to use an end-user surcharge to recoup universal service contributions, we note that this is at issue in Phase II of this Investigation. Consequently, while we do not address either issue herein, it is our intent to address both issues in the near future in other proceedings.

2. State Funding Eligibility and the Facilities Based Requirement

GTEN argues that the Commission should reject the FCC's interpretation of "own facilities" for purposes of universal service funding. GTEN Supplemental Petition at p. 9. The FCC found that "a carrier that offers any of the services designated for universal service support either in whole or in part, over facilities that are obtained as unbundled network elements pursuant to section 251(c)(3) and that meet the definition of facilities set forth above, satisfies the facilities requirement of Section 214(e)(1)(A). " GTEN urges that the best solution would be to allow for funding to the CLEC up to the level of unbundled network element cost with the ILEC receiving the remaining customer funding. In this way argues GTEN, the carrier that provides the high cost facilities can be compensated for its cost and the CLEC is not discouraged from competing in high cost areas using unbundled network elements. GTEN Supplemental Petition at p. 10.

Bell urges us to accept the FCC's determination that resale carriers are not eligible for support. While Bell also notes that the FCC's decision that CLECs providing service exclusively through unbundled network elements are eligible to receive universal service support, Bell states that the FCC has provided that the level of such support is not to exceed the cost of the unbundled network elements used to provide the supported services. Bell Supplemental Petition at p. 14. Bell states that the remainder of the support is to go to the ILEC to cover the economic cost of providing that element through out the relevant service area. Bell Supplemental Petition at p. 15.

As to the issue of state funding eligibility, we adopt the same standards adopted by the FCC in its May 8, 1997 Report and Order since we believe that they are consistent with the intent and purpose of the Federal Act. Carriers providing service on a purely resale basis shall be ineligible for universal service support under the state universal service funding mechanism. Carriers providing service solely through the purchase of unbundled network elements will be

considered to meet the facilities requirement of Section 214(e)(1)(A). Such carriers will eligible for state universal service funds, as long as they meet the other criteria of Section 214 of the Federal Act; **THEREFORE,**

IT IS ORDERED:

1) That the Petitions for Reconsideration and/or Clarification of the Commission's January 28, 1997 Opinion and Order are granted in part, and denied in part, to the extent discussed herein.

2) That a series of on the record technical workshops shall be conducted by the Office of Administrative Law Judge consistent with the discussion contained herein. A prehearing conference shall be scheduled within 10 days from the entry of this Order. The Office of Administrative Law Judge shall submit its Report and Recommended Decision to the Commission no later than December 1, 1997.

3) That the request of PTA, on behalf of certain carriers, for an extension of time to file Lifeline plans with the Commission is granted in part. All LECs which have not yet filed their Lifeline plans with the Commission shall do so on or before September 30, 1997, with an effective date of January 1, 1998.

4) The Commission will accept further comment on the issue of exogenous treatment of universal service contributions under state price cap or alternative regulation plans on or before August 20, 1997, with replies due on or before August 29, 1997.

5) That the Acting Secretary of the Commission shall serve a copy of this Order upon all parties of record and members of the Commission's Universal Telephone Service Task Force.

BY THE COMMISSION

James J. McNulty
Acting Secretary

(SEAL)

ORDER ADOPTED: July 31, 1997

ORDER ENTERED: JUL 31 1997

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105

IN RE: FORMAL INVESTIGATION TO EXAMINE AND ESTABLISH UPDATED UNIVERSAL SERVICE PRINCIPLES AND POLICIES FOR TELECOMMUNICATIONS SERVICES IN THE COMMONWEALTH

PUBLIC MEETING-
JULY 31, 1997
JUL-97-L-82
I-00940035

STATEMENT OF CHAIRMAN JOHN M. QUAIN

This Order on Reconsideration establishes a series of technical conferences that will be facilitated by the Office of Administrative Law Judge. I appreciate that cost modeling is complex. I must point out, however, that we are near the eleventh hour in this matter. I encourage the parties to attend these conferences with the clear determination to work together to provide us with an updated and fiscally appropriate cost model to implement universal service.

This matter is of the utmost importance, and I view universal service issues very seriously. Given the needs of the citizens of this Commonwealth and the Federal Communications Commission's May 8, 1997, Report and Order, we expect results consistent with the schedule set forth in our Order.

7/31/97
DATE

JOHN M. QUAIN, CHAIRMAN